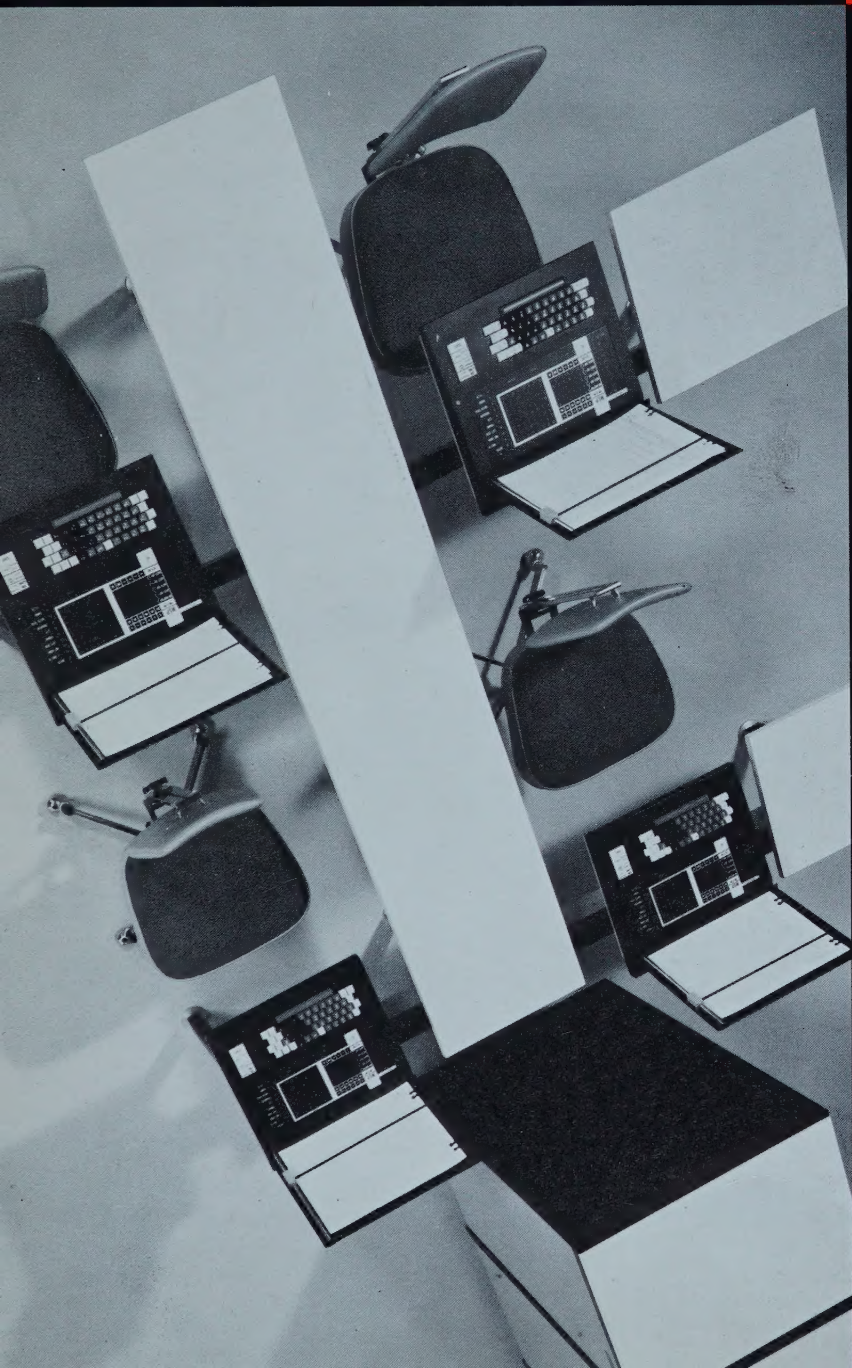
CONSOLIDATED COMPUTER SERVICES
LIMITED

ANNUAL REPORT



TO THE SHAREHOLDERS:

I am pleased to report that 1969 was a successful year. Our products were well received, we met our sales goals and we grew at a rapid rate both in Canada and in foreign markets. Annual sales totalled $650,520 and the net loss was $921,172. The loss was lower than we projected and resulted from the significant start up costs associated with building a marketing and manufacturing capability. To support the increasing sales of KEY-EDIT systems your company expanded from 22 people at the beginning of 1969 to 135 at the end of 1969. By April 1, 1970 the total complement reached 199 personnel.

There is every indication that 1970 will result in further substantial progress. By the middle of May we had exceeded our sales goal for the first six months with bookings of approximately $3 Million.

Multiple keyboard systems, such as the KEY-EDIT system, are the most exciting products in the computer industry today. These products are aimed at the fast growing data preparation segment of the industry, which currently accounts for 37% of all money spent in computing. The most widely used device in this field, the card keypunch, has been in common use for over 20 years and is now due for replacement. This obsolescence is largely the result of productivity benefits offered by multi-keyboard systems, such as KEY-EDIT systems. The current dollar investment in keypunch installations is estimated to be in excess of $2 billion. The KEY-EDIT system is a leading contender for this replacement market because it reduces data preparation problems to an absolute minimum and at lower costs.

Expansion outside Canada took place with the establishment of a subsidiary in the U.S.A. and another is being established in the U.K. There are now nine sales offices in the U.S.A. and one in the U.K. Arrangements are also being made to market and service KEY-EDIT systems in continental Europe. The company unveiled the KEY-EDIT system in Europe in a Canadian Government sponsored exhibit at the German Industries Fair at Hanover in April, 1970.

A separate plant facility was established in Ottawa during November of 1969 and further space will be made available when our new plant in Ottawa is completed later this month. The new plant will allow us to substantially increase our present production capacity of 32 key-stations per week and bring production in line with demand.

The rapid expansion has been planned to take full advantage of the technological lead time of KEY-EDIT systems. This expansion has required considerable capital, particularly because customers in the industry almost exclusively lease their systems rather than purchase them. The use of leases means that the company cannot finance production from the small monthly lease revenue, because the cash payments required to purchase components and assemble the system are much larger. The company is currently in the final stages of negotiation with a major corporation to arrange for the financing of its equipment leases. This contract will ensure that the company will continue in a strong financial position in the future.

The unprecedented acceptance of multiple keyboard systems in general and KEY-EDIT systems in particular has forced the company to shift more of its human and financial resources into this area from our time sharing activities. This de-emphasis on time sharing is not a reflection on our product or service. Both have excellent potential and will play an important role in the company's future. As a matter of fact the Toronto and Halifax time sharing bureaux, established in 1969, are expected to be operating on a profitable basis shortly. Despite this, it is prudent that the company concentrate more heavily on KEY-EDIT systems which offer more immediate returns due to rapidly increasing demand in the data preparation segment of the computer market.

We continue to attract leading people in the industry. Among our recent additions are Mr. Albert B. Couillard as Director of Manufacturing (formerly with Digital Equipment Corporation as plant manager), Mr. Robert E. Echols as Vice President, Production and Development (previously responsible for Air Canada's financial computer operations), Mr. Gordon H. Hawkett as Controller (formerly with Seccombe House and Canada Vinegars in senior financial capacities), Mr. Seaforth Lyle as Vice President, Product Management (formerly a Vice President of an Acres subsidiary), and Mr. Robert P. Wickes as Vice President of European Marketing (formerly Director of Marketing for Honeywell Key-Tape and Communications Products in the U.K.).

Considerable misunderstanding has been caused by the use of the word "Services" in the company name. The Board of Directors has therefore decided that the company name should be changed to "Consolidated Computer Limited", to reflect more accurately the company's major activity in manufacturing and marketing specialized computer systems, rather than in providing computer services.

In summary, the company has made significant progress towards its goal of becoming a major manufacturer of computer products. Proven design, marketing and manufacturing capabilities now exist and the basic foundation of the company has been firmly established. The company's record of being able to set realistic sales and expense goals, and meet them, is a strong endorsement of company planning. Consolidated Computer will continue to expand its existing product line and to innovate other important computer products well in advance of the field. This factor establishes your company as a leader in the data preparation market.

The board joins me in thanking our employees for their untiring and dedicated efforts. The success of the company is the direct result of their hard work and we are most appreciative of their contribution.

Sincerely,

Mers Kutt
President.

May 15, 1970

CONSOLIDATED COMPUTE

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ASSETS

	1969 $	1968 $
CURRENT ASSETS		
Cash	25,024	26,281
Short-term notes and deposits	2,510,060	409,885
Accounts receivable—Trade	396,535	—
—Other	146,460	2,190
Inventories—at the lower of cost or net realizable value	2,025,464	—
Prepaid expenses	9,032	750
	5,112,575	439,106
EQUIPMENT PURCHASE FUND (notes 2 and 6)	2,580,881	—
FIXED ASSETS—at cost less accumulated depreciation (note 3)	1,181,313	156,058
DEFERRED EXPENSES—at cost less amortization		
Debenture discount (note 4)	265,833	—
Research and development costs (note 5)	211,350	—
	477,183	—
	9,351,952	595,164

Signed on behalf of the Board

Director

Director

SERVICES LIMITED

BALANCE SHEET

December 31, 1969

LIABILITIES

	1969 $	1968 $
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,284,578	154,003
LONG-TERM DEBT (note 6)		
5% convertible debentures Series A	5,462,000	—
	6,746,578	154,003

SHAREHOLDERS' EQUITY

	1969 $	1968 $
CAPITAL STOCK (note 7)		
Authorized—2,500,000 shares without par value		
Issued and fully paid—1,216,300 shares	3,673,000	500,000
DEFICIT (note 11)	1,067,626	58,839
	2,605,374	441,161
	9,351,952	595,164

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Consolidated Computer Services Limited and its subsidiary as at December 31, 1969 and the consolidated statements of earnings, deficit and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

McDonald, Currie & Co.

February 19, 1970

McDonald, Currie & Co.
Chartered Accountants

CONSOLIDATED COMPUTER SERVICES LIMITED

CONSOLIDATED STATEMENT OF DEFICIT

for the year ended December 31, 1969

	1969 $	1968 $
DEFICIT—BEGINNING OF PERIOD	58,839	—
Add: Loss for the period	921,172	58,839
Expenses of issuing securities (note 7)	87,615	—
DEFICIT—END OF PERIOD	1,067,626	58,839

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1969

	1969 $	June 21, 1968 to December 31, 1968 $
NET SALES, RENTALS AND SERVICES	650,520	5,932
COST OF PRODUCTS AND SERVICES	410,355	—
	240,165	5,932
EXPENSES		
Marketing, administration, research and development and other (notes 5 and 8)	1,263,432	71,198
Depreciation	32,462	—
Interest on debentures (including amortization of deferred debenture discount) (note 4)	158,697	—
	1,454,591	71,198
Interest income	293,254	6,427
	1,161,337	64,771
LOSS FOR THE PERIOD	921,172	58,839

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

for the year ended December 31, 1969

	1969	June 21, 1968 to December 31, 1968
	$	$
SOURCE OF FUNDS		
Sale of shares (note 7)	3,135,000	500,000
5% convertible debentures Series A	5,500,000	—
	8,635,000	500,000
USE OF FUNDS		
Loss for the period	921,172	58,839
Less: Items not requiring an outlay of funds—Depreciation	32,462	—
Amortization of deferred expenses	79,617	—
	809,093	58,839
Discount on 5% convertible debentures Series A	275,000	—
Equipment purchase fund (net)	2,580,881	—
Increase in fixed assets	1,057,717	156,058
Deferred research and development expenditures	281,800	—
Expenses of issuing securities charged to deficit	87,615	—
	5,092,106	214,897
INCREASE IN WORKING CAPITAL	3,542,894	285,103
WORKING CAPITAL—BEGINNING OF PERIOD	285,103	—
WORKING CAPITAL—END OF PERIOD	3,827,997	285,103

CONSOLIDATED COMPUTER SERVICES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1969

1. INCORPORATION OF UNITED STATES SUBSIDIARY

On May 27, 1969 the company formed a subsidiary company in the United States of America under the laws of the State of Delaware.

2. EQUIPMENT PURCHASE FUND

The company may withdraw moneys from this fund in amounts equal to (a) the invoice price of computer and peripheral equipment, equipment for manufacturing or producing the same, and computer components, materials or supplies, all of which are purchased for use, lease or sale by the company, and (b) federal sales tax paid on computer equipment used or leased by the company. On sale of equipment within 2 years the company must repay to the fund amounts related to the amounts originally withdrawn from the fund, all as described in a Trust Indenture dated June 15, 1969.

3. FIXED ASSETS

The company's fixed assets comprise:

	Cost $	Accumulated depreciation $	1969 $	1968 $
Equipment	1,007,713	24,058	983,655	149,892
Equipment on lease	111,073	4,988	106,085	—
Furniture and fixtures	87,977	2,791	85,186	6,166
	1,206,763	31,837	1,174,926	156,058
Leasehold improvements—at cost less amortization			6,387	—
			1,181,313	156,058

4. AMORTIZATION OF DEFERRED DEBENTURE DISCOUNT

Deferred debenture discount is being amortized over the life of the Series A debentures and $9,167 was amortized in the current year.

5. RESEARCH AND DEVELOPMENT COSTS

	$
Costs incurred during the year	310,700
Recoverable in the form of government grants	28,900
	281,800
Amortized during the year	70,450
Deferred at end of year	211,350

6. LONG-TERM DEBT

The company will establish a sinking fund to retire each year after six years from date of issue, approximately 10% of the issued debentures per year.

The Series A debentures are secured under a trust indenture by (a) a first and specific charge on the Equipment Purchase Fund and (b) a first floating charge on the company's assets both present and future, subject to the right of the company, on short-term indebtedness, to pledge and charge certain of such assets as security ranking in priority to such floating charge.

Each Series A debenture is convertible into 100 common shares of the company for ten years. The Series A debentures are:

(a) non-redeemable until June 15, 1971;

(b) redeemable at 105% of the principal amount thereof for the next 3 years if the common shares of the company during the 6 consecutive months immediately preceding a call for redemption shall not have traded below $16 per share; and

(c) thereafter, redeemable at decreasing percentages of the principal amount.

7. CAPITAL STOCK

By Supplementary Letters Patent dated April 18, 1969 the company was converted to a public company, the 100,000 common shares then issued and outstanding were subdivided into 800,000 common shares and the authorized capital was increased to 2,500,000 common shares without par value by the creation of an additional 1,700,000 common shares.

During the year 412,500 common shares were issued for $3,135,000 cash and 38 of the 5% convertible debentures Series A were converted to 3,800 common shares.

546,200 common shares have been reserved to meet the conversion privilege attached to the Series A debentures.

Pursuant to an Underwriting Agreement dated June 9, 1969, an option to purchase 40,000 common shares at $8 per share has been granted to the Underwriter as part of the consideration for services rendered. 40,000 common shares of the company have been reserved for this purpose.

A further 60,000 common shares have been reserved for allotment under the company's employee stock option plan. Of these, options to purchase 37,550 common shares have been granted as follows:

29,050 shares at $7.20 per share and
8,500 shares at various prices between $8.50 and $12.00,

all of which expire in 1974.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total remuneration paid to directors and senior officers as defined by The Corporations Act of Ontario for the year was $92,600.

9. CONVERSION OF FOREIGN CURRENCY

Current assets and current liabilities in United States funds have been converted to Canadian funds at approximately the year-end rate of exchange. Fixed assets in United States funds have been converted to Canadian funds at the approximate rates in effect when they were acquired.

10. LEASE COMMITMENTS

Total rentals paid for the year ended December 31, 1969 and the total of future commitments (excluding tax and like expenses) are:

	$
Year ended December 31, 1969	51,594
January 1, 1970 to December 31, 1973	180,921

11. INCOME TAXES

At December 31, 1969 the company had approximately $980,000 of losses carried forward which can be applied to future years' profits and, thereby, reduce income taxes in those years.

COMPANY OBJECTIVES AND STRATEGIES:

The company objective is to establish Consolidated Computer as a substantial manufacturer and marketer of computer products by bringing together capable people to develop innovative products that meet the needs of particular segments of the market and, with a rapid but controlled growth, maximize their profit potential.

In order to establish itself a new company must develop products to satisfy markets that the larger manufacturers are inadequately serving. Your company is pursuing a most unique opportunity in the data preparation market with the KEY-EDIT system.

This opportunity is unique because:

(1) Users of data preparation equipment now recognize the tremendous productivity improvements gained with multiple keyboard systems.

(2) The major manufacturers of data preparation equipment are still delivering keypunches and are unable to deliver multi-keyboard systems.

(3) The annual lease revenue from keypunch equipment is approximately $400 million and is received for little additional expenditure, since most of this equipment has been written off. Consequently the keypunch manufacturers are **not** anxious to obsolete their equipment. This puts your company in an excellent position to capitalize on an enormous replacement market with KEY-EDIT systems.

As in any business the success of a company depends on the strengths and capabilities of its people. The potential of the KEY-EDIT system has been instrumental in attracting to your company top professionals in the management, marketing and technical areas. For the future we will continue in our endeavours to provide the best of human resources to manage company business.

The computer industry represents a dynamic and rapidly changing environment. We will keep KEY-EDIT systems well in advance of the field with continuous updates, which will assure it an extended life. We are also actively engaged in new product development. These products will be targeted to meet the needs of particular segments of the market that promise substantial returns to your company.

COMPANY PRODUCTS

KEY-EDIT . . .

The KEY-EDIT system provides the most advanced method of preparing data for computer use and replaces the traditional keypunch and keytape machines. The multiple keyboards (up to 32) of the KEY-EDIT system feed a small computer that manages the information flow and concurrently performs selected editing functions on the data. Information is completely processed onto magnetic tape much more efficiently than is possible with the other methods. The major advantages of using the KEY-EDIT system from the user's viewpoint are: much increased operator productivity, ease of conversion, elimination of cumbersome punched card or magnetic tape traffic, elimination of noise associated with keypunch units, and reduced space required for the system.

TIME SHARING . . .

The CCS 2100 time sharing system provides a capability for sixteen users to communicate interactively with the computer simultaneously. The system uses an extended version of Dartmouth University BASIC, which is very easy to learn and is the most widely used time sharing language. The system was designed exclusively for time sharing which offers the user lower cost and faster response time than is available with conventional systems. The company markets the CCS 2100 system and also operates service bureaux in Toronto and Halifax, with future installations planned for Montreal and Edmonton.

DIRECTORS

Mers Kutt,
President and Chairman of the Board of Directors of Consolidated Computer Services Ltd.,

Donald M. Pamenter,
Vice President of Consolidated Computer Services Ltd.,

Robert J. Deyell,
Director of Burns Bros. and Denton Ltd.,

John P. G. Kemp,
President and Director of Molson's Brewery (Ontario) Ltd.,

David G. Kilgour,
Partner in the Law Firm of Kilgour and World.

Officers

Mers Kutt,
President,

Donald M. Pamenter,
Group Vice President Operations,

William G. Hutchison,
Group Vice President Marketing.

Other Officers

Geoffrey H. Bennett, Jeffrey M. Donahue, Robert E. Echols, Willem Kooij, Seaforth M. Lyle, Robert P. Wickes, David G. Kilgour

CANADA

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San Francisco, California
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